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INFO RUEHZS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS
RUEHOO/CHINA POSTS COLLECTIVE
RUEHKO/AMEMBASSY TOKYO 1283
RUEHCHI/AMCONSUL CHIANG MAI 0667
RUCPDO/DEPT OF COMMERCE WASHDC
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C O N F I D E N T I A L SECTION 01 OF 04 VIENTIANE 000238

SIPDIS

STATE PASS TO USTDA AND CUSTOMS AND BORDER PATROL
COMMERCE FOR HPPHO
TREASURY FOR SCHUN

E.O. 12958: DECL: 05/09/2019
TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [ELTN](#) [EWWT](#) [CH](#) [LA](#) [TH](#)
SUBJECT: GMS:PROXIMITY AND POLITICS FOCUSES CHINESE
INVESTMENT ON NORTHERN LAOS

REF: A. CHIANG MAI 57 (GMS: POOR INFRASTRUCTURE)
[1](#)B. VIENTIANE 112 (CHINA,S INVESTMENT IN NORTHERN
LAOS)
[1](#)C. 07 VIENTIANE 228

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Classified By: Ambassador Ravic R. Huso for reasons 1.4 (b) and (d)

[1](#)1. This is the second in a series of cables from Consulate General Chiang Mai and Embassy Vientiane on the Greater Mekong Subregion's (GMS) R3A highway (ref a). These cables have been coordinated with Consulate General Chengdu. This cable was co-drafted by econ officers at both Vientiane and Chiang Mai.

Summary and Comment

[1](#)2. (C) Two Special Economic Zones (SEZ), what Laotians disparagingly call "Chinese concessions," anchored by casino-hotels and run by Chinese firms, bookend the Laos portion of the GMS's recently opened R3A highway. These modern Chinatowns appear to offer little in the way of employment for the local population and are aimed at a Chinese clientele. The concessions and Chinese-financed rubber plantations compose the largest share of foreign direct investment (FDI) in northern Laos. While geography and demography are likely the main drivers of FDI in the northern GMS, political compatibility with the Lao government gives Chinese investors another useful edge in northern Laos.

[1](#)3. (C) Comment: China's dominant role in FDI across northern Laos is unsurprising, considering geography, the size of the Chinese economy, and its demand for resources. However, the lack of Chinese FDI in northern Thailand suggests that politics as well as proximity play a role in where the Chinese choose to invest. Moreover, many Lao and Thai who live along the R3A profess a dislike of Chinese investments, believing them of little local benefit. Cultural affinity between Laos and Thailand, relatively inexpensive Lao labor, and abundant Lao natural resources make Laos a natural destination for Thai investment. The R3A now offers Thai investors easier access to neighboring Bokeo province in Laos, and also to previously difficult to reach Luang Namtha province, as well as to southern China's Yunnan province (whose ethnically similar Dai region already hosts large Thai

investments). Although Chinese firms currently provide the majority of FDI in Bokeo and Luang Namtha, provincial Lao officials and the local population would welcome a more balanced mix. End summary and comment.

The New Chinatowns: Boten

14. (C) China is establishing its economic presence in the upper Mekong region, primarily in Laos, along the R3A highway of the GMS's North-South Economic Corridor. Adjacent to China's Yunnan province, Luang Namtha province in Laos exemplifies China's expanding GMS investment presence. At Boten, the Chinese-Lao border town where the R3A enters Laos from China, the government of Yunnan province in the People's Republic of China (PRC) has underwritten the establishment of a seven square-kilometer special economic zone (SEZ), which it describes as an opportunity for foreign investors from any country to invest and export duty-free from Laos (ref a and b). This is commonly referred to by the Lao as a "Chinese concession." Although Luang Namtha province hosts the SEZ, provincial planning and investment department officials said that they do not count the SEZ as part of their provincial investment stock as it is a "special arrangement by the central Lao government." Ref C discusses the establishment of the concession in more detail. About 20 kilometers from the international border at Boten, where Laos is constructing a new customs check-point, a GOL public works official said that "We (Laotians) cannot do anything there. We cannot even cut down the trees." The official said he did not know the price China paid for the land, but reported that two Lao villages were forced to relocate just outside the

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zone. According to Houmpheng Souralay, Director General in the Department of Direct and Foreign Investment in the Ministry of Planning and Investment, the concession agreement runs for 30 years.

15. (C) A report on the GMS from the Royal Thai Government's (RTG) consulate in Chengdu said that \$29.4 million of the SEZ's construction costs came from Chinese government sources. The report praised the zone as "a space that will help expand various foreign investments in Laos." The basis for the Consulate's analysis is unclear -- the Boten SEZ is a modern Chinatown, lacking non-Chinese firms and workers. The anchor location is a dingy Chinese casino, whose patrons are middle-class Chinese tourists and whose employees are Yunnanese laborers. In the casino and at most of the businesses that surround it, Mandarin is the language of choice and the RMB is the preferred currency. U.S. dollars may be used upon negotiation, but merchants prefer RMB over Lao kip; by company policy, the casino does not accept kip. There is no indication that the zone welcomes any non-Chinese investment.

16. (C) The Customs Director in Luang Namtha stated that he believes Chinese officials would like the zone to develop into a garment warehouse and production center. This objective makes sense, as Chinese firms currently export garments to Thailand via northern Thai ports, often using smuggling routes via Burma (septel). Yunnan provincial officials also hope that agro-industry and commodity processing will take place in the SEZ. The Lao customs director was optimistic about the zone, saying that it "is good for the Lao people." While some tax revenue is flowing to the GOL, repeated visits to the zone indicate that almost all employment in the zone is reserved, at least unofficially, for Chinese laborers. DG Souralay told Embassy Vientiane that the GOL and the Boten investor have agreed to negotiate a new tax rate for the casino in 2009, to replace the flat \$700,000 paid to the GOL yearly. The surrounding Chinese shops supposedly pay taxes according to Lao law, although provincial authorities have previously indicated

they do not have access to the SEZ to check the companies, books.

The New Chinatowns: The Golden Triangle

17. (C) At the southern end of the R3A in Laos, about one hour from the Thai-Lao border town of Huay Sai in Bokeo province, the Chinese company Dokngiewkhan (aka Kingsromans Group; www.kingsromans.com with Chinese web pages that appear to have additional information) is investing in a similar SEZ or "concession" in Ton Pheung district, building a casino and a 689 room hotel. The zone is situated on the banks of the Mekong River at the heart of the Golden Triangle, opposite the Thai river port of Chiang Saen and a Wa-controlled area of Burma. This zone is over twice the size of the Boten SEZ, reportedly measuring 20 square-kilometers. While merchants at the nearby market say that China's lease on the land has a term of 100 years, central government officials say the concession agreement runs 50 years, starting from its signing in 2007.

18. (C) An immediate similarity with the Boten SEZ is the lack of Lao laborers at the site. During our visit, skilled and semi-skilled workers -- such as engineers, welders, and supervisors -- were all Chinese. Low-skilled construction workers were either Chinese or Burmese. According to our driver, who takes potential Chinese investors to the site regularly, these low-skilled Chinese and Burmese workers are illegal. One Chinese merchant estimated that about 2,000 Chinese are working at the site. Signage, such as safety policies for workers, was exclusively in Chinese. Similar to Boten, the central building being constructed in Ton Pheung is a massive casino resort. Several other buildings, apparently future hotels, shopping centers, and warehouses, are also under construction; unlike Boten, none of the planned businesses are yet open. At the riverbank, Chinese workers are also building a new customs and immigration checkpoint. Presumably, the checkpoint will support boat transport

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between Laos and neighboring Thailand and Burma. Local merchants expect that China will supply a new wave of tourists. Thai immigration officials told us they are starting to see increasing numbers of Chinese entering Thailand via northern ports, purportedly intending to visit relatives who live and work in Mae Sai, the northern border town adjacent to Burma. They also reported that China is planning to establish a consulate in Chiang Rai province to handle the growing number of Chinese visitors. (NOTE: China already has a Consulate General in nearby Chiang Mai. END NOTE.)

Chinese Contract Investment Along the R3A

19. (C) Connecting the two new "Chinatowns," the R3A highway is surrounded by FDI, mostly Chinese and in the form of contract rubber farming. According to the Luang Namtha planning and investment department, rubber plantations cover 21,647 acres of land in the province, the vast majority financed by Chinese investors. Of the twenty-one companies presently investing in Luang Namtha rubber plantations, only three are non-Chinese. The standard contract, referred to as "Three Two," requires the investing company to provide technical advice, seeds, and branding for the rubber, while the Lao farmer provides land for the rubber trees and labor to raise and tap the rubber. The deputy director of the investment department praised the program for its opium crop substitution and poverty reduction mission. When asked why the GOL chose to support rubber as a crop substitute for opium versus other high-value crops with shorter harvest periods (it takes seven

years to grow rubber before it can be harvested), the deputy director said that the investment in rubber was an order from the central GOL and was based on negotiations between the PRC and GOL. The deputy director also indicated he feared that local Lao labor would not be sufficient to tap all the rubber when it matures. A German citizen, serving as advisor to the investment department, expects that in the annual nine months of rubber harvesting, beginning in 2011 or 2012, the population of Luang Namtha (estimated at 145,00) will double from a flood of Chinese labor.

¶10. (C) The main town on the R3A within Laos is the provincial capital city of Luang Namtha. The city is host to other forms of Chinese investment which are also indicators of the predominance of the Chinese business presence in northern Laos. The recently constructed Hong Chin hotel and adjacent market are both Chinese investments, which locals refer to as the "Chinese hotel" and "Chinese market." Chinese language signage, the use of RMB for hotel transactions, and a "Ni hao" greeting upon arrival suggest that Chinese are the expected hotel guests. At the market, most of the goods sold are Chinese produced and several of the merchants were Yunnanese.

Thai Investment in Northern Laos: Wanted, But Still Minimal

¶11. (C) Most Laotians along the R3A with whom we spoke had disapproving attitudes toward Chinese investors, considering them untrustworthy and cunning in their business techniques. The Lao seemed eager for more Thai investors in northern Laos. Along the southernmost Thai-financed portion of the R3A highway, a large Thai-owned coal mine serves as the exemplary case of a "good foreign investor" in northern Laos.

The mine began in 1994 and has 300 employees. Unlike the two SEZs at Boten and Ton Pheung, the workers are Lao. In addition to providing work to locals, the mine company also engages in community outreach, including the donation of a new school, medical services, and new equipment for local Lao government agencies. One Lao employee praised the company for providing job opportunities for local people and raising incomes.

¶12. (C) A Lao mine representative said that the mine and some agricultural contract farming funded by CP, a Thai agro-industry firm, are the predominant Thai investments in

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northern Laos. He also said that the investment market in northern Laos is ripe for more Thai participation, especially given the linguistic and cultural similarities between Laos and Thailand, the local desire for Thai investment, and the ease of developing strong trust relationships between culturally similar business partners. He believes the reason Chinese investors dominate northern Laos is that they begin their investment at the central government level, whereas Thai investors explore opportunities on an individual basis and work directly with local land owners and governments.

Little Chinese Investment in Northern Thailand

¶13. (C) If geographic and political proximity facilitates China's investment into Laos, the cooler political relationship between the PRC and RTG, and the lack of a contiguous border, help explain low levels of Chinese investment in northern Thailand. While China's investment dominates northern Laos, only nine Chinese investment projects have been declared to the Board of Investment in northern Thailand, which covers the eight northernmost provinces. The value of these nine projects is only about \$4.6 million, which is concentrated in agriculture and light

industry. Thai immigration and customs officials claim Chinese investment is likely larger, but that it is hidden as domestic investment because male Chinese investors often marry Thai women (many of whom are of ethnic Chinese origin) and classify their investment under the wife's name.

¶14. (C) While China's investment interest in northern Thailand remains low, Thai investors see promise in the 44 million people located in China's Yunnan province. According to the Thai MFA, at the end of 2007 140 Thai investment projects were declared in Yunnan, with a total value of \$77.4 million. The two most notable projects are the Xishuangbanna Jing Hong Industrial Estate and agricultural investment by the Thai agro-industry firm CP. The dominant ethnic group in Xishuangbanna is the Dai, ethnically and culturally similar to the Thai and Lao, a factor that has facilitated Thai investment. According to the Government Relations Director of the industrial estate, other Thai companies are actively expressing interest in investment projects in Yunnan, including frozen foods and energy drink firms. The Director told us by phone that he also sees investment opportunities in electronic parts production, food processing, and rubber production for Thai firms in Yunnan.

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